

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 31 October 2002 (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial results

The Group's turnover for the six months ended 31 October 2002 was approximately HK\$2,086.2 million representing 61.8% decrease from approximately HK\$5,460.7 million for the corresponding period in the previous year. The significant decrease in the turnover was mainly attributable to the reduction in the source of supply of gold bullion obtained by the gold bullion operation.

For the six months ended 31 October 2002, the Group recorded a net loss from ordinary activities attributable to the shareholders of HK\$44.7 million (2001: net profit of HK\$21.8 million) mainly resulted from the decrease in the turnover and the profit margin from the sales of gold bullion and jewellery products for strategic measures in maintaining its market position and source of supplies of the Group for future recovery of the economy in Hong Kong. However, the associates engaged in the jewellery retail network business in Mainland China was able to contribute a net profit of HK\$13.8 million (2001: HK\$0.9 million) after deducting its amortisation of goodwill.

Segment information

An analysis of the Group's turnover and contribution to results by principal activities for the period ended 31 October 2002 is set out in note 3 to the Interim Financial Statements.

Liquidity and financial resources

As at 31 October 2002, the Group had bank borrowings of HK\$164.8 million, other short term borrowings of HK\$180.4 million, convertible notes of HK\$129.2 million, promissory notes of HK\$39 million and convertible bonds of HK\$85.1 million. Of these borrowings, approximately HK\$211 million was secured by certain of the Group's assets and approximately HK\$503.2 million was repayable within one year. The current ratio of the Group as at 31 October 2002 was slightly reduced to 0.64 based on the total current assets of HK\$648.7 million and the total current liabilities of HK\$1,011.4 million in comparison with that in the previous year at 0.65. Calculated on the basis of the Group's net borrowings after deduction of cash and bank balances of HK\$1.8 million and gold bullion of HK\$86.2 million over shareholders' fund of HK\$1,099.5 million, the Group had a gearing ratio of 0.46 as at 31 October 2002.

At 30 April 2002, there were total outstanding convertible bonds of HK\$84.9 million. During the period under review, convertible bonds of an aggregate amount of approximately HK\$523 million was further issued, of which the proceeds were utilised to reduce certain existing indebtedness and as general working capital for the Group. During the same period, of these convertible bonds of an aggregate amount of approximately HK\$607.9 million, convertible bonds of approximately HK\$522.8 million were converted into 10,176,660,000 ordinary shares. As at 31 October 2002, the total outstanding convertible bonds amounted to approximately HK\$85.1 million.

In March 2003, the Company announced a restructuring proposal including capital reorganisation and debt restructuring. Creditors with aggregate claims of approximately HK\$764 million participated in the debt restructuring by entering into subscription agreements for shares or convertible bonds of the Company. The capital reorganisation included a capital reduction and share subdivision, pursuant to which the nominal value of each ordinary share in issue would be reduced from HK\$1.00 to HK\$0.001 each by cancelling HK\$0.999 paid up capital on each issued share, and each unissued ordinary share would be subdivided into 1,000 new shares of HK\$0.001 each. The capital reorganisation and debt restructuring were duly approved by the shareholders of the Company at the special general meeting held on 14 July 2003 and the capital reorganisation became effective on the same date. Completion of the debt restructuring took place on 15 July 2003, an aggregate of 17,011,153,137 shares and approximately HK\$423 million three-year zero coupon convertible bonds were issued by the Company in relation thereof. Upon completion of the debt restructuring, the issued share capital of the Company was increased to 18,706,642,373 shares of HK\$0.001 each. On the other hand, the Group's total indebtedness would be reduced by approximately HK\$340 million and the annual interest savings as a result thereof would be approximately HK\$30 to HK\$40 million.

Subsidiaries

During the period, the Group disposed of its interest in certain subsidiaries which were engaged in property investment holding located outside Hong Kong to an independent third party for a total cash consideration of HK\$44,800,000. The proceeds from the disposal were utilised to repay the respective mortgage loans borrowed from banks or financial institutions. The disposal did not result in any significant gain or loss to the Group.

On 18 July 2002, 399,000,000 ordinary shares were issued and allotted for cash at HK\$0.023 each by Trasy Gold Ex Limited ("Trasy") to more than six independent third parties. As a result, the Group's equity interest in Trasy was diluted from 58.46% to 50.07%. The deemed partial disposal of Trasy arising therefrom did not result in any significant gain or loss to the Group.

Foreign currency exposure

The Group did not have significant exposure to foreign exchange fluctuation as most of the assets, liabilities and transactions conducted during the period were denominated in Hong Kong dollars, Renminbi or United States dollars.

Charges on Group assets

As at 31 October 2002, the Group's certain fixed assets, interests in subsidiaries, inventories and bank deposits were pledged to banks and non-financial institutions to secure certain facilities and borrowings of an aggregate amount of approximately HK\$211 million granted to the Group.

Operating lease arrangements and contingent liabilities

Details of the Group's operating lease arrangements and contingent liabilities as at 31 October 2002 are set out in notes 17 and 18 to the Interim Financial Statements, respectively.

Employee and remuneration policy

As at 31 October 2002, the Group had 97 employees and the total staff costs including directors' remuneration amounted to HK\$23 million for the six months ended 31 October 2002. Other benefits provided by the Group to its employees include provident funds and medical coverage. During the period under review, no share options were granted to any directors or employees of the Group under the Company's share option scheme.

Business review

Hong Kong

During the period under review, the gold price fluctuated within a narrow range with an upward trend. The investment markets had continuously participated in the gold investment market. In addition, the source of supply of gold bullion from overseas to Hong Kong was also decreased due to the softened local consumption power and competition arising from the liberalisation of the gold market in Mainland China. The Group relatively had scaled down the activities in its gold bullion and jewellery retail operations in Hong Kong. In maintaining the existing customer base and source of supplies for future recovery of the economy in Hong Kong, the Group strategically reduced the profit margin of its sales to sustain its market position. On the other hand, the Group also commenced to gradually cut down the relevant operating costs as a result of the downsizing of the activities. Nevertheless, the Group is confident of the recovery of the local economy and that the gold bullion and jewellery retail business of the Group will benefit from it thereon.

Mainland China

For the six months ended 31 October 2002, the associates of the Group engaged in the jewellery retail network business in Mainland China continuously contributed a share of its net profit after amortisation of the relevant goodwill amounting to HK\$13.8 million (2001: HK\$0.9 million) although the competition in the jewellery retail market was increasing for the liberalisation of the gold market in Mainland China.

The Group's newly promoted business in franchising the jewellery brand of "Diamond Link" in Mainland China was in good progress. Various negotiations with the potential franchisees for the opening of franchised outlets in Chengdu, Qingdao, Nanjing, Beijing, Dalian, Shenzhen, Qinhuangdao, Xian, Shenyang and Wuhan has been being proceeded after having successfully launched three franchised outlets in Shanghai, Changchun and Harbin. In this respect, the Group will further concentrate its strengths and resources on the development in the jewellery franchise business with its knowledge in the logistic operation in Mainland China gained from its existing jewellery retail investment.

The Sixth Annual RNA China Gold and Precious Metals Conference in Shanghai as organized by the Group was held in September 2002 and attended by hundreds of representatives of the gold and jewellery enterprises from Mainland China and Hong Kong and other international bullion institutions and jewelers. As an organizer of the conference, the Group will continuously contribute its network in the international gold market to enhance the exchange of information and knowledge between international and Mainland China gold industry by inviting renowned speakers from the international gold industry to share their insights to the development of the gold industry in Mainland China with the domestic gold and jewellery operators.

Penang, Malaysia

As the economy in this region was slowly recovered, the sales activities in Malaysia was slightly increased and its operations had made an effort to sustain and are looking forward to pick up once the fundamental demand improves.

FUTURE PROSPECTS

Since the harsh downturn of the Hong Kong economy and the outbreak of Severe Acute Respiratory Syndrome in Greater China region further harmfully dampened the retail business in Hong Kong and Mainland China in the second half of the financial year 2002/03, the Group's performance had been relatively affected. However, the Group has effectively taken some strategic measures including the maintenance of its market position and resources for future business development, gradual cut-down of its operating costs for meeting the relatively reduced operational capacity.

In addition, the Group has successfully completed its debt restructuring exercise in July 2003. This has effectively reduced the level of the total indebtedness of the Group by issuance of ordinary shares of approximately HK\$340 million to repay the existing debts to the same extent. The Group will benefit from the debt restructuring exercise with an effective cut-down of finance costs of approximately HK\$30 to HK\$40 million a year in the future.

The Government of Hong Kong Special Administrative Region has recently entered into the Closer Economic Partnership Arrangement ("CEPA") with the Central Government for Hong Kong industrialists. It is expected that the demand for the raw materials for manufacturing of jewellery products in Hong Kong will be improved after the commencement of the CEPA and the Group will relatively benefit therefrom for more active local sales of gold bullion in the coming future.